

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Farmington, Michigan</u>	County Oakland
Audit Date June 30, 2004	Opinion Date September 17, 2004	Date Accountant Report Submitted To State: November 9, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of Farmington, Michigan

Financial Report with Supplemental information June 30, 2004

City of Farmington, Michigan

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Independent Auditor's Report

To the City Council
City of Farmington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Farmington, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Farmington, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Farmington, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Farmington, Michigan

The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington, Michigan's basic financial statements. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 17, 2004

City of Farmington, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

The City of Farmington, Michigan's (the "City") annual report consists of this analysis (management's discussion and analysis), government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

Last fiscal year, the City fully implemented the Governmental Accounting Standards Board's (GASB) Statement No. 34. This accounting pronouncement, among other changes, adds government-wide financial statements which were designed to provide a broad overview of the City's finances. The government-wide statements are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just current financial resources as measured in the individual fund statements. These statements make a distinction between governmental activities such as public safety and public works and business-type activities such as the provision of water and sewerage service. Two government-wide statements are provided.

One government-wide statement, the statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The other government-wide statement, the statement of activities, provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds and compiled financial information is provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works, proprietary funds, which account for business-type activities such as provision of water and sewer services, and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities in the government-wide statement of net assets, which are not included in the fund balance sheets, and related to the timing of reporting capital outlays and debt principal repayment in the fund statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest, and accrued employee leave time in the individual fund statements versus the government-wide statements.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Financial Position and Results of Operation for the City as a Whole

The City had an increase of \$750,182 in net assets in its governmental funds for the fiscal year ended June 30, 2004, resulting primarily from expenditures in general government, public safety, and public service operations significantly below budget. Following the passage of what is referred to as Prop A, a constitutional provision and related state legislation limiting local property tax revenues, the City has aggressively sought to increase net assets to protect the City's long-term financial condition.

Net assets in the water and sewer operations activity increased by \$215,090. The Water and Sewer Fund received property tax revenue of \$691,648 to service debt on general obligation bond issues, which was the basis of the net asset increase for the fiscal year. These property taxes were used to help offset principal and interest payments of \$731,700 for the 1990 Sewer Improvement Bonds.

In a condensed format, the tables below show the net assets and changes in net assets (in thousands of dollars) as of June 30, 2004 and 2003.

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 8,756	\$ 8,784	\$ 3,729	\$ 3,710	\$ 12,485	\$ 12,494
Noncurrent assets	<u>12,666</u>	<u>11,924</u>	<u>17,242</u>	<u>17,759</u>	<u>29,908</u>	<u>29,683</u>
Total assets	21,422	20,708	20,971	21,469	42,393	42,177
Liabilities						
Current liabilities	1,285	1,296	1,258	1,221	2,543	2,517
Long-term liabilities	<u>2,042</u>	<u>2,066</u>	<u>5,955</u>	<u>6,705</u>	<u>7,997</u>	<u>8,771</u>
Total liabilities	<u>3,327</u>	<u>3,362</u>	<u>7,213</u>	<u>7,926</u>	<u>10,540</u>	<u>11,288</u>
Net Assets						
Invested in capital assets - Net of related debt	10,074	9,282	11,242	10,923	21,316	20,205
Restricted	1,197	1,403	75	75	1,272	1,478
Unrestricted	<u>6,824</u>	<u>6,661</u>	<u>2,441</u>	<u>2,545</u>	<u>9,265</u>	<u>9,206</u>
Total net assets	<u>\$ 18,095</u>	<u>\$ 17,346</u>	<u>\$ 13,758</u>	<u>\$ 13,543</u>	<u>\$ 31,853</u>	<u>\$ 30,889</u>

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 1,184	\$ 1,061	\$ 3,350	\$ 3,187	\$ 4,534	\$ 4,248
Operating grants and contributions	691	712	-	-	691	712
Capital grants and contributions	-	37	13	1,770	13	1,807
General revenue:						
Property taxes	4,855	4,690	692	729	5,547	5,419
State-shared revenues	993	1,100	-	-	993	1,100
Unrestricted investment earnings	75	117	23	30	98	147
Cable franchise fees	63	61	-	-	63	61
Cell tower fees	18	17	-	-	18	17
Miscellaneous	27	25	-	2	27	27
Transfers	(123)	-	123	-	-	-
Gain on sale of capital assets	16	22	-	34	16	56
Total revenue	7,799	7,842	4,201	5,752	12,000	13,594
Program Expenses						
General government	1,679	1,763	-	-	1,679	1,763
Public safety	2,795	2,557	-	-	2,795	2,557
Public works	1,737	1,674	-	-	1,737	1,674
Health and welfare	28	29	-	-	28	29
Community and economic development	32	10	-	-	32	10
Recreation and culture	704	710	-	-	704	710
Interest on long-term debt	74	112	-	-	74	112
Water and sewer	-	-	3,600	3,136	3,600	3,136
Community theatre	-	-	386	364	386	364
Total program expenses	7,049	6,855	3,986	3,500	11,035	10,355
Change in Net Assets	\$ 750	\$ 987	\$ 215	\$ 2,252	\$ 965	\$ 3,239

Governmental Activities

The City continues to experience slow but steady growth in tax revenues which have been capped by state statute since 1996 at 5 percent, or the rate of inflation. Beginning last fiscal year, expenses which had remained relatively stable over a number of years and within the general rate of inflation began to see double digit inflation, particularly in insurance premiums including health care premiums and in the employer contribution for employee pension benefits.

State-shared revenues, statutorily designated to support local community services and historically about 20 percent of the City's general operating revenues, have continued to decline. The State of Michigan continues to capture local government revenues to fund State expenditures. This fiscal year, the City received \$106,654 less in state-shared revenues than it received in 2003, continuing the erosion of what was the City's second largest revenue source and is now becoming the third largest source.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

The City of Farmington, by policy, strives to maintain a cash surplus sufficient to bridge any expected gap in current year revenues or increases in ordinary, unanticipated current year expenditures. Prudent financial planning places the City in a sound financial position with adequate cash reserves.

Business-type Activities

The City operates a water and sewer system and a theatre. The water and sewer system provides water and sewage services to almost all of the City's residents and to some outside users. Rates are set to provide for annual operations, to service debt, and to build an operating cash reserve. Rates are evaluated annually and increased July 1, 2003 by 12.65 percent for water and 5.36 percent for sewer. Water loss for the year was approximately 8.6 percent of water purchased, and decreased from the prior year by 5 percent.

The City operates a theatre which ended the year with an operating loss, including depreciation charges of \$23,657. The City purchased the theatre in 1999 and anticipates operating deficits for the first several years of operation.

Analysis of Individual Funds

Of the City's governmental funds, the General Fund and the Major and Local Street Funds account for all significant expenditures except for debt service.

The General Fund ended the fiscal year with an addition to surplus in the amount of \$133,757. Major revenue sources, except property taxes and charges for services, and particularly state-shared revenues and interest earnings, remain down significantly from previous years.

Both the Major and Local Street Funds continue to have healthy balances. City streets are in excellent condition, and as a result of a voter-approved millage for street construction and maintenance, funding remains adequate for future road projects and road repair needs.

General Operating Fund Budget Highlights

The City's original and amended general operating budget increased significantly. The City finalized transition to a new city manager and amended the budget to include a number of infrastructure improvements, master plan updates, republishing the city code, and other items which had been placed on hold as the transition took priority.

During the annual budget process, the City completes an extensive review of the current year budget, culminating in a budget amendment to appropriate the revised expenditure estimates. As a result of carefully monitoring expenditures throughout the year and a practice and history of conservative budgeting, the General Fund ended the year with a surplus of \$133,757, exceeding budgeted projections by \$670,417. This was due primarily to unfilled positions with related employee benefit costs and budgeted one-time expenditures and projects which were carried over to the 2004-2005 fiscal year.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Long-term Debt Activity

Major capital asset and infrastructure additions in governmental funds consisted of road improvements in the amount of \$736,623, \$425,812 in major street improvements, and \$310,811 in local street improvements.

In the Water and Sewer Fund, a new water main was constructed, costing \$132,320.

The City did not issue any new debt during the 2003-2004 fiscal year and serviced all outstanding debt on a timely basis.

Economic Factors and Next Year's Budgets and Rates

The City has enjoyed a relatively stable property tax millage rate over many years with the exception of millage added in 1991 to provide for extensive revisions to the City's sewer system and a road program millage approved by the voters in 1995 to ensure streets in the City are in excellent repair. With these two additions totaling approximately 4 mills, the millage went from about 11 mills in 1990 to just over 15 mills in 2003 and remains just over 15 mills in 2004. During this time, the City also discontinued special assessments for sidewalk repairs, instead providing for sidewalk repairs through the tax millage. The City began a \$240,000 sidewalk repair program this year which will be completed during the first quarter of the 2004-2005 fiscal year.

Farmington is a fully developed small city and as such depends on growth in property values to offset growth in expenditures supported by taxes and to offset reductions in state-shared revenues. Property taxes account for almost 60 percent of General Fund revenues and property tax values have grown by an average of 3.69 percent over the last five years. State-shared revenues historically accounted for about 20 percent of General Fund revenues, have declined to about 14.8 percent this year, and current funding levels remain at risk due to the financial condition and priorities of the State.

The City budgeted for continued increases in employee and postemployment benefit costs in the 2004-2005 fiscal year, but has taken steps in labor contract negotiations and other employment agreements to reduce the cost of health care.

The City has experienced no specific events which it believes will materially impact the finances of the City but notes certain long-term trends such as capped property tax revenues and shrinking state-shared revenues, which will have a direct impact on the City's ability to provide current services as inflation in the cost of providing services reappears. Adequate cash reserves and authorized unlevied millage ensures provision of current services in the near term as the City meets these challenges and plans for the future.

City of Farmington, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Financial Management

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, contact the city manager or city treasurer at City Hall, 23600 Liberty Street, Farmington, Michigan 48335.

City of Farmington, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash and investments (Note 3)	\$ 8,103,762	\$ 2,716,068	\$ 10,819,830	\$ 432,893
Receivables (Note 4)	505,532	977,901	1,483,433	5,929
Internal balances	27,741	(27,741)	-	-
Prepaid costs and other assets	118,940	62,438	181,378	-
Long-term internal advances (Note 6)	780,114	(780,114)	-	-
Restricted assets	-	75,000	75,000	-
Capital assets (Note 5):				
Depreciable	10,628,514	17,745,694	28,374,208	82,110
Nondepreciable	1,257,606	201,333	1,458,939	76,500
Total assets	21,422,209	20,970,579	42,392,788	597,432
Liabilities				
Accounts payable	578,522	390,236	968,758	12,686
Accrued and other liabilities	209,824	49,552	259,376	-
Due to other governmental units	5,567	1,330	6,897	10,113
Noncurrent liabilities:				
Bonds payable, due within one year (Note 7)	90,333	750,000	840,333	-
Bonds payable, due in more than one year (Note 7)	1,722,068	5,955,000	7,677,068	-
Employee compensated absences, due within one year	400,702	66,589	467,291	-
Employee compensated absences, due in more than one year	319,732	-	319,732	-
Total liabilities	3,326,748	7,212,707	10,539,455	22,799
Net Assets				
Invested in capital assets - Net of related debt	10,073,719	11,242,027	21,315,746	158,610
Restricted:				
Streets and highways	1,190,828	-	1,190,828	-
Debt service	6,515	-	6,515	-
Bond covenants	-	75,000	75,000	-
Unrestricted	6,824,399	2,440,845	9,265,244	416,023
Total net assets	<u>\$ 18,095,461</u>	<u>\$ 13,757,872</u>	<u>\$ 31,853,333</u>	<u>\$ 574,633</u>

City of Farmington, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,679,225	\$ 644,665	\$ -	\$ -
Public safety	2,794,930	229,859	4,079	-
Public works	1,736,559	295,557	686,950	-
Health and welfare	27,590	-	-	-
Community and economic development	31,600	-	-	-
Recreation and culture	704,419	14,392	-	-
Interest on long-term debt	74,415	-	-	-
Total governmental activities	7,048,738	1,184,473	691,029	-
Business-type activities:				
Water and sewer	3,600,017	3,022,165	-	13,053
Farmington Community Theater	386,236	328,158	-	-
Total business-type activities	3,986,253	3,350,323	-	13,053
Total primary government	<u>\$ 11,034,991</u>	<u>\$ 4,534,796</u>	<u>\$ 691,029</u>	<u>\$ 13,053</u>
Component unit - Downtown Development Authority	<u>\$ 266,498</u>	<u>\$ -</u>	<u>\$ 140,000</u>	<u>\$ 5,100</u>

General revenues:
 Property taxes
 State-shared revenues
 Unrestricted investment earnings
 Cable franchise fees
 Cell tower fees
 Miscellaneous
 Transfers
 Gain on sale of capital assets

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (1,034,560)	\$ -	\$ (1,034,560)	\$ -
(2,560,992)	-	(2,560,992)	-
(754,052)	-	(754,052)	-
(27,590)	-	(27,590)	-
(31,600)	-	(31,600)	-
(690,027)	-	(690,027)	-
(74,415)	-	(74,415)	-
(5,173,236)	-	(5,173,236)	-
-	(564,799)	(564,799)	-
-	(58,078)	(58,078)	-
-	(622,877)	(622,877)	-
(5,173,236)	(622,877)	(5,796,113)	-
-	-	-	(121,398)
4,855,142	691,648	5,546,790	189,380
993,276	-	993,276	-
74,766	22,804	97,570	5,111
63,277	-	63,277	-
17,700	-	17,700	-
27,199	-	27,199	200
(123,515)	123,515	-	-
15,573	-	15,573	-
5,923,418	837,967	6,761,385	194,691
750,182	215,090	965,272	73,293
17,345,279	13,542,782	30,888,061	501,340
\$ 18,095,461	\$ 13,757,872	\$ 31,853,333	\$ 574,633

City of Farmington, Michigan

	Major Special Revenue Funds			
	General Fund	Major Street Fund	Local Street Fund	Municipal Street Fund
Assets				
Cash and investments	\$ 3,875,575	\$ 460,746	\$ 94,619	\$ 865,481
Receivables - Net	392,296	82,894	29,720	-
Due from other funds	82,134	110,145	397,291	-
Other assets	47,540	-	-	-
Advances due from other funds	-	-	-	-
Total assets	<u>\$ 4,397,545</u>	<u>\$ 653,785</u>	<u>\$ 521,630</u>	<u>\$ 865,481</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 290,283	\$ 55,481	\$ 232,758	\$ -
Accrued and other liabilities	190,364	-	-	-
Due to other governmental units	5,567	-	-	-
Due to other funds	-	29,514	40,763	491,552
Deferred revenue	1,642	-	-	-
Total liabilities	487,856	84,995	273,521	491,552
Fund Balances				
Reserved for:				
Advances due from other funds	-	-	-	-
Debt service	-	-	-	-
Inventory	47,540	-	-	-
Unreserved - Reported in:				
General Fund	2,696,663	-	-	-
Special Revenue Funds	-	568,790	245,929	345,759
Capital Projects Fund	-	-	-	-
Designated (Note 11)	1,165,486	-	2,180	28,170
Total fund balances	3,909,689	568,790	248,109	373,929
Total liabilities and fund balances	<u>\$ 4,397,545</u>	<u>\$ 653,785</u>	<u>\$ 521,630</u>	<u>\$ 865,481</u>

**Governmental Funds
Balance Sheet
June 30, 2004**

Major Capital Projects Fund - Capital Improvement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,565,096	\$ 6,515	\$ 7,868,032
622	-	505,532
-	-	589,570
-	-	47,540
780,114	-	780,114
\$ 3,345,832	\$ 6,515	\$ 9,790,788

\$ -	\$ -	\$ 578,522
-	-	190,364
-	-	5,567
-	-	561,829
-	-	1,642
-	-	1,337,924

780,114	-	780,114
-	6,515	6,515
-	-	47,540
-	-	2,696,663
-	-	1,160,478
2,565,718	-	2,565,718
-	-	1,195,836
3,345,832	6,515	8,452,864
\$ 3,345,832	\$ 6,515	\$ 9,790,788

City of Farmington, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2004

Fund Balance - Total Governmental Funds	\$ 8,452,864
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	11,886,120
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Certain receivables are expected to be collected over several years in the General Fund and are not available to pay for current year expenditures	1,641
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Long-term liabilities not due and payable in the current period and not reported in the funds, including:	
Compensated absences	(720,434)
Interest payable	(18,842)
Bonds payable	(1,812,401)

Internal Service Fund is included as part of governmental activities	<u>306,513</u>
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Net Assets - Governmental Activities	<u><u>\$ 18,095,461</u></u>
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City of Farmington, Michigan

	Major Special Revenue Funds			
	General Fund	Major Street Fund	Local Street Fund	Municipal Street Fund
Revenues				
Property taxes	\$ 4,163,580	\$ -	\$ -	\$ 556,919
Licenses and permits	113,027	-	-	-
Federal grants	29,653	-	-	-
State-shared revenues and grants	1,024,428	483,168	174,872	-
Charges for services	729,289	-	-	-
Fines and forfeitures	587,194	-	-	-
Interest and rentals	162,411	2,739	1,266	5,709
Other	238,136	-	24,905	-
Total revenues	7,047,718	485,907	201,043	562,628
Expenditures				
Current:				
General government	1,296,622	-	-	-
Court	557,675	-	-	-
Public safety	1,990,332	-	-	-
Public services	954,145	665,665	590,834	-
Health and welfare	27,590	-	-	-
Community and economic development	31,600	-	-	-
Recreation and culture	392,457	-	-	-
Library	276,814	-	-	-
Other:				
Insurance and bonds	108,322	-	-	-
Employee benefits	1,038,963	-	-	-
Retiree health care plan	260,890	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	6,935,410	665,665	590,834	-
Excess of Revenues Over (Under) Expenditures	112,308	(179,758)	(389,791)	562,628
Other Financing Sources (Uses)				
Transfers in	-	110,145	481,407	-
Transfers out	(28,515)	(41,413)	(37,236)	(591,552)
Proceeds from sale of capital assets	49,964	-	-	-
Total other financing sources (uses)	21,449	68,732	444,171	(591,552)
Net Change in Fund Balances	133,757	(111,026)	54,380	(28,924)
Fund Balances - Beginning of year	3,775,932	679,816	193,729	402,853
Fund Balances - End of year	\$ 3,909,689	\$ 568,790	\$ 248,109	\$ 373,929

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2004

Major Capital Projects Fund - Capital Improvement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 134,643	\$ 4,855,142
-	-	113,027
-	-	29,653
-	-	1,682,468
-	-	729,289
-	-	587,194
21,800	894	194,819
-	-	263,041
21,800	135,537	8,454,633
-	-	1,296,622
-	-	557,675
-	-	1,990,332
-	-	2,210,644
-	-	27,590
-	-	31,600
-	-	392,457
-	-	276,814
-	-	108,322
-	-	1,038,963
-	-	260,890
-	151,367	151,367
-	87,929	87,929
-	239,296	8,431,205
21,800	(103,759)	23,428
-	78,649	670,201
-	(95,000)	(793,716)
-	-	49,964
-	(16,351)	(73,551)
21,800	(120,110)	(50,123)
3,324,032	126,625	8,502,987
\$ 3,345,832	\$ 6,515	\$ 8,452,864

City of Farmington, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds **\$ (50,123)**

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	675,115
Governmental funds report proceeds from sale of assets as an other financing source; in the statement of activities, gain or loss on sale of capital assets is recorded	(34,391)
Revenue related to special assessments is recorded when earned in the statement of activities, and recorded only when available in the governmental funds	(1,642)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	151,367
Decrease in accrued interest recorded in the statement of activities	13,514
Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(55,624)
Internal Service Funds are included as governmental activities	<u>51,966</u>

Change in Net Assets of Governmental Activities **\$ 750,182**

City of Farmington, Michigan

Proprietary Funds Statement of Net Assets (Deficit) June 30, 2004

	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
Assets				
Current assets:				
Cash and investments	\$ 2,676,380	\$ 39,688	\$ 2,716,068	\$ 235,730
Receivables - Net	977,901	-	977,901	-
Other assets	46,781	15,657	62,438	71,400
Total current assets	3,701,062	55,345	3,756,407	307,130
Noncurrent assets:				
Restricted assets	75,000	-	75,000	-
Capital assets	16,886,509	1,060,518	17,947,027	-
Total noncurrent assets	16,961,509	1,060,518	18,022,027	-
Total assets	20,662,571	1,115,863	21,778,434	307,130
Liabilities				
Current liabilities:				
Accounts payable	374,334	15,902	390,236	-
Accrued and other liabilities	44,832	4,720	49,552	617
Due to other funds	27,343	398	27,741	-
Due to other governmental units	489	841	1,330	-
Current portion of employee compensated absences	66,589	-	66,589	-
Current portion of long-term debt	715,000	35,000	750,000	-
Total current liabilities	1,228,587	56,861	1,285,448	617
Noncurrent liabilities:				
Advances due to other funds	-	780,114	780,114	-
Long-term debt - Net of current portion	5,400,000	555,000	5,955,000	-
Total noncurrent liabilities	5,400,000	1,335,114	6,735,114	-
Total liabilities	6,628,587	1,391,975	8,020,562	617
Net Assets (Deficit)				
Investment in capital assets - Net of related debt	10,771,509	470,518	11,242,027	-
Restricted	75,000	-	75,000	-
Unrestricted net assets (deficit)	3,187,475	(746,630)	2,440,845	306,513
Total net assets (deficit)	\$ 14,033,984	\$ (276,112)	\$ 13,757,872	\$ 306,513

City of Farmington, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2004

	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
Operating Revenues				
Fees	\$ -	\$ 326,119	\$ 326,119	\$ -
Water sales	1,255,054	-	1,255,054	-
Sewage disposal charges	1,662,064	-	1,662,064	-
Service charges	59,873	-	59,873	166,649
Other income	45,174	2,039	47,213	31,232
Total operating revenues	3,022,165	328,158	3,350,323	197,881
Operating Expenses				
Source of supply	1,727,746	-	1,727,746	-
Transmission, distribution, and maintenance	904,654	26,738	931,392	-
Administrative and general	820,458	325,077	1,145,535	-
Insurance costs	-	-	-	152,441
Total operating expenses	3,452,858	351,815	3,804,673	152,441
Operating Income (Loss)	(430,693)	(23,657)	(454,350)	45,440
Nonoperating Revenue (Expense)				
Property taxes	691,648	-	691,648	-
Investment income	22,632	172	22,804	6,526
Interest expense	(147,159)	(34,421)	(181,580)	-
Transfers	95,000	28,515	123,515	-
Total nonoperating revenue (expense)	662,121	(5,734)	656,387	6,526
Capital Contributions	13,053	-	13,053	-
Change in Net Assets	244,481	(29,391)	215,090	51,966
Net Assets (Deficit) - Beginning of year	13,789,503	(246,721)	13,542,782	254,547
Net Assets (Deficit) - End of year	<u>\$ 14,033,984</u>	<u>\$ (276,112)</u>	<u>\$ 13,757,872</u>	<u>\$ 306,513</u>

City of Farmington, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,853,416	\$ 333,467	\$ 3,186,883	\$ 197,881
Payments to suppliers	(2,032,991)	(321,179)	(2,354,170)	(202,748)
Payments to employees	(428,376)	-	(428,376)	-
Internal activity - Net payments to other funds	(384,211)	737	(383,474)	-
Other receipts	45,174	2,039	47,213	-
Net cash provided by (used in) operating activities	53,012	15,064	68,076	(4,867)
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(141,766)	(45,940)	(187,706)	-
Capital contributions	13,053	-	13,053	-
Operating transfers	95,000	28,515	123,515	-
Principal and interest paid on capital debt	(855,467)	(69,545)	(925,012)	-
Property taxes	686,545	-	686,545	-
Net cash used in capital and related financing activities	(202,635)	(86,970)	(289,605)	-
Cash Flows from Noncapital and Related Financing Activities				
Internal activity - Loans made from other funds	-	101,903	101,903	-
Cash Flows from Investing Activities - Interest received on investments	22,632	172	22,804	6,526
Net Increase (Decrease) in Cash and Cash Equivalents	(126,991)	30,169	(96,822)	1,659
Cash and Cash Equivalents - Beginning of year	2,878,371	9,519	2,887,890	234,071
Cash and Cash Equivalents - End of year	<u>\$ 2,751,380</u>	<u>\$ 39,688</u>	<u>\$ 2,791,068</u>	<u>\$ 235,730</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 2,676,380	\$ 39,688	\$ 2,716,068	\$ 235,730
Restricted investments (Note 3)	75,000	-	75,000	-
Total cash and cash equivalents	<u>\$ 2,751,380</u>	<u>\$ 39,688</u>	<u>\$ 2,791,068</u>	<u>\$ 235,730</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (430,693)	\$ (23,657)	\$ (454,350)	\$ 45,440
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	576,356	26,741	603,097	-
Changes in assets and liabilities:				
Receivables	(123,575)	7,348	(116,227)	-
Due from other funds	180	-	180	-
Other assets	3,815	952	4,767	2,144
Accounts payable	5,950	2,418	8,368	-
Accrued and other liabilities	21,221	525	21,746	(52,451)
Due to other funds	(242)	737	495	-
Net cash provided by (used in) operating activities	<u>\$ 53,012</u>	<u>\$ 15,064</u>	<u>\$ 68,076</u>	<u>\$ (4,867)</u>

City of Farmington, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension and Other Employee Benefits	Private Purpose Trust Fund - Cemetery Perpetual Care Trust	Agency Fund
Assets			
Cash and investments:			
Cash and cash equivalents	\$ 43,618	\$ 18,666	\$ 130,318
U.S. governmental securities	1,807,619	-	-
Corporate stock	3,249,947	-	-
Corporate bonds	5,376,775	-	-
Mutual funds	4,698,242	-	-
Investment pools	1,589,809	-	-
Due from other funds	272	-	-
Receivables	57,768	-	-
Total assets	16,824,050	<u>\$ 18,666</u>	<u>\$ 130,318</u>
Liabilities			
Accounts payable	15,511	\$ -	\$ 2,150
Due to other governmental units	-	-	8,582
Due to other funds	272	-	-
Accrued and other liabilities	1,179	18,666	119,586
Total liabilities	16,962	<u>\$ 18,666</u>	<u>\$ 130,318</u>
Net Assets - Held in trust for pension and other employee benefits			
	<u>\$ 16,807,088</u>		

City of Farmington, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension and Other Employee Benefits
Additions	
Investment income:	
Interest and dividends	\$ 407,558
Net realized and unrealized gain on investments	1,381,855
Less investment expenses	<u>(93,130)</u>
Net investment income	1,696,283
Contributions:	
Employer	456,974
Employee	<u>52,596</u>
Total contributions	<u>509,570</u>
Total additions	2,205,853
Deductions	
Benefit payments	612,338
Insurance costs	<u>210,022</u>
Total deductions	<u>822,360</u>
Net Increase in Plan Net Assets	1,383,493
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>15,423,595</u>
End of year	<u>\$ 16,807,088</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Farmington (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City’s operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Unit

The City of Farmington Employees’ Retirement System has been blended into the City’s financial statements. The system is governed by a five-member pension board that includes two individuals chosen by the City Council and one individual, the city manager, who serves by virtue of his position. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Discretely Presented Component Unit

The Downtown Development Authority (the “Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of eight individuals, is selected by the mayor with City Council approval. In addition, the Authority’s budget is subject to approval by the City.

Jointly Governed Organizations

The City participates in the Michigan 47th District Court Administration Fund and the Farmington Community Library with the City of Farmington Hills. The City provides approximately 14 percent of the funding for the Michigan 47th District Court Administration Fund, and has recorded an equity interest in the amount of \$15,393 for the year ended June 30, 2004. The City provides less than 10 percent of the funding for the library.

Note 1 - Summary of Significant Accounting Policies (Continued)

Complete financial statements for the 47th District Court Administration Fund and the Farmington Community Library can be obtained from the City's administrative offices at 23600 Liberty Street, Farmington, Michigan 48335.

The City also participates in the Southwest Oakland Cable Commission (the "Cable Commission") as a joint venture with the cities of Farmington Hills and Novi. The Cable Commission receives 3 percent of the total cable television charges from the cable television company as franchise fees and currently does not receive a subsidy from the City. Financial information for the joint venture can be obtained from the Cable Commission's administrative offices at 33300 Nine Mile Road, Farmington, Michigan.

In addition, the City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC). The RRRASOC is incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of South Lyon. The RRRASOC receives its operating revenue from member contributions and miscellaneous income. The City contributed \$12,768 for the year ended June 30, 2004. Financial information for the RRRASOC can be obtained from the RRRASOC's administrative offices at 20000 West Eight Mile Road, Southfield, Michigan.

For all the above joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the future.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and State-shared revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- **General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Major Street Fund** - The Major Street Fund accounts for the resources obtained through State gas and weight tax revenues that are restricted for use on major streets.
- **Local Street Fund** - The Local Street Fund accounts for the resources obtained through State gas and weight tax revenues that are restricted for use on local streets.
- **Municipal Street Fund** - The Municipal Street Fund accounts for the resources obtained through property taxes that are used for both major and local street projects.
- **Capital Improvement Fund** - The Capital Improvement Fund accounts for the resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, and enterprise projects; and for the acquisition of major capital assets.

The City reports the following major proprietary funds:

- **Water and Sewer Fund** - The Water and Sewer Fund accounts for the water distribution system and sewage collection system.
- **Farmington Community Theater Fund** - The Farmington Community Theater Fund accounts for the activity provided by the Civic Theatre.

Note I - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Internal Service Fund - The Self-insurance Fund accounts for the portion of the City's insurance liability not covered by commercially provided insurance.

Pension and Other Employee Benefits Funds - The Pension and Other Employee Benefits Funds account for the resources set aside by the City to provide retirement, health, and insurance benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

Private Purpose Trust Fund - The private purpose trust fund accounts for resources restricted for the upkeep and maintenance of the City's cemetery.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes federal grants as nonoperating revenue, since the funds are intended to recover the cost of the related infrastructure.

Note 1 - Summary of Significant Accounting Policies (Continued)

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - All trade and property tax receivables are shown as net of allowance for uncollectible amounts, if deemed necessary. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The 2003 taxable valuation of the City totaled \$365 million, on which ad valorem taxes levied consisted of 11.1500 mills for the City's operating purposes, .1000 mills for sidewalk maintenance, 2.0700 mills for drain and sewer improvements, 1.5563 mills for street improvements and maintenance, and .2409 mills for debt service related to the new 47th District Court facility. The ad valorem taxes levied raised \$3,920,000 for operations, \$35,000 for sidewalk maintenance, \$730,000 for drain and sewer improvements, \$547,000 for street improvements and maintenance, and \$85,000 for debt service related to the 47th District Court facility. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

Prepaid Costs and Other Assets - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Other assets consist primarily of inventories, which are valued at cost, on a first-in, first-out basis.

Note I - Summary of Significant Accounting Policies (Continued)

Restricted Assets - Restricted assets consist of cash and cash equivalents in the amount of \$75,000 in the Water and Sewer Fund. The assets in the Water and Sewer Fund are restricted for a replacement reserve as required by the 1991 Water Supply and Sewer Disposal System Bond ordinance.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$4,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City's capital assets are depreciated using the straight-line method over the following useful lives:

Flowage rights	25 years
County roads	20-30 years
Infrastructure	10-50 years
Buildings and improvements	5-80 years
Court building	10-50 years
Equipment and other	4-25 years
Vehicles	3-30 years
Water and sewer mains	50 years
Water storage tank	50 years
Water meters	20 years
Truck and tractors	7-15 years
Office equipment	5-20 years
Other equipment	5-15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. In the government-wide and proprietary fund financial statements, a portion of the vacation and sick pay is accrued when incurred for the amount that would be paid out upon separation of the employee from the City. In the governmental funds, a liability for these amounts is reported only for employee terminations as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (Continued)

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2003		\$ (104,663)
Current year building permit revenue		70,920
Related expenses:		
Direct costs	\$ 83,540	
Estimated indirect costs	<u>8,354</u>	
Total construction code expenses		<u>91,894</u>
Net shortfall for the year ended June 30, 2004		<u>(20,974)</u>
Cumulative shortfall at June 30, 2004		<u><u>\$ (125,637)</u></u>

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The City Charter requires the city manager to submit a budget for the next fiscal year to the City Council on or before the third Monday in April, and the City Council to adopt, by resolution, a budget for the next fiscal year on or after May 1 and not later than the first Monday in June. The City Council may pass amendments to the budget during the fiscal year by resolution.

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and major Special Revenue Funds is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the nonmajor funds can be obtained from the City offices at 23600 Liberty Street, Farmington, MI 48335.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers and proceeds from sale of assets have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

The Community Theatre Fund had a net assets deficit at year end of approximately \$276,000. A deficit elimination plan is on file with the State.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers’ acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in the following:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with Section 1, Subsection (2) of PA 20 of 1943 as amended
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after date of purchase

Note 3 - Deposits and Investments (Continued)

- Repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States as described above
- Banker's acceptances of United States banks
- Obligations of the State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service
- Mutual funds which comply with Public Act 20 of 1943 as amended. The Treasurer may invest in mutual funds whose net asset value per share may fluctuate on a periodic basis, provided that a report is submitted to Council advising of reasons for the investment and outlining the mutual fund selection process.
- Obligations purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Extra Session) (PA 7), if allowed by Public Act 20, 1943 as amended
- Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367
- Investment pools organized under the Local Government Investment Pool Act, 1985 PA 121

The City of Farmington's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 8,103,762	\$ 2,716,068	\$ 16,914,994	\$ 27,734,824	\$ 432,893
Restricted assets	-	75,000	-	75,000	-
Total	<u>\$ 8,103,762</u>	<u>\$ 2,791,068</u>	<u>\$ 16,914,994</u>	<u>\$ 27,809,824</u>	<u>\$ 432,893</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Unit
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,285,012	\$ 432,843
Investments in securities, mutual funds, and similar vehicles	26,522,927	-
Petty cash or cash on hand	1,885	50
Total	<u>\$ 27,809,824</u>	<u>\$ 432,893</u>

The bank balance of the City's deposits is \$1,724,295, of which \$200,100 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The component unit's deposits had a bank balance of \$432,843, of which \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name

City of Farmington, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At year end, the City's investment balances were categorized as follows:

	1	2	3	Reported Amount (Fair Value)
Primary government:				
U.S. government securities	\$ -	\$ 1,807,619	\$ -	\$ 1,807,619
Corporate bonds	-	3,249,947	-	3,249,947
Common and preferred stock	-	5,376,775	-	5,376,775
Subtotal	<u>\$ -</u>	<u>\$ 10,434,341</u>	<u>\$ -</u>	10,434,341
Investments not subject to categorization:				
Bank investment pool funds				10,664,311
Interlocal agreement investment pool funds				726,033
Mutual funds				<u>4,698,242</u>
Total primary government				<u>\$ 26,522,927</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools, interlocal agreement investment pools, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Included in the City of Farmington Employees' Retirement System investments at June 30, 2004 are the following:

Approximately \$1,580,000 of collateralized mortgage obligations, Federal National Mortgage Association (FNMA) securities, and Federal Home Loan securities. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 3 - Deposits and Investments (Continued)

- Approximately \$57,000 of securities issued by the Small Business Association (SBA). These investments are usually not backed by the full faith and credit of the U.S. government but are generally considered to offer modest credit risks. The yields provided by these loan-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$99,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Asset-backed securities of approximately \$250,000. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller resources, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these "pay through" securities could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Receivables

Receivables as of year end for the City's individual major funds are as follows:

	General Fund	Major Street Fund	Local Street Fund	Capital Improvement Fund	Total
Receivables:					
Taxes	\$ 95,976	\$ -	\$ -	\$ -	\$ 95,976
Special assessments	3,284	-	-	-	3,284
Intergovernmental	272,565	82,894	29,720	-	385,179
Interest and other	20,471	-	-	622	21,093
Total receivables	<u>\$ 392,296</u>	<u>\$ 82,894</u>	<u>\$ 29,720</u>	<u>\$ 622</u>	<u>\$ 505,532</u>

Note 4 - Receivables (Continued)

Receivables as of year end for the City's Enterprise Fund are as follows:

	<u>Water and Sewer Fund</u>
Receivables:	
Taxes	\$ 62,090
Customer receivables	891,900
Intergovernmental	<u>23,911</u>
Total receivables	<u><u>\$ 977,901</u></u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, deferred revenue consisted of \$1,642 in special assessments that were earned but unavailable.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,185,454	\$ -	\$ -	\$ 1,185,454
Equity investment in 47th District Court	12,591	2,802	-	15,393
Construction in progress - 47th District Court	1,400,300	-	(1,400,300)	-
Construction in progress - 03/04 sidewalk	-	56,759	-	56,759
Construction in progress - County road	421,722	-	(421,722)	-
Subtotal	3,020,067	59,561	(1,822,022)	1,257,606
Capital assets being depreciated/ amortized:				
Flowage rights	946,170	-	-	946,170
County roads	-	391,690	-	391,690
Infrastructure	8,235,573	893,649	-	9,129,222
Buildings and improvements	2,759,238	-	-	2,759,238
Court building	69,742	1,687,748	-	1,757,490
Equipment and other	623,920	17,454	-	641,374
Vehicles	1,113,594	123,035	(99,522)	1,137,107
Subtotal	13,748,237	3,113,576	(99,522)	16,762,291
Accumulated depreciation/ amortization:				
Flowage rights	511,534	37,847	-	549,381
County roads	-	13,056	-	13,056
Infrastructure	2,952,769	339,819	-	3,292,588
Buildings and improvements	1,014,386	89,223	-	1,103,609
Court building	35,844	35,389	-	71,233
Equipment and other	384,568	54,010	-	438,578
Vehicles	623,807	106,656	(65,131)	665,332
Subtotal	5,522,908	676,000	(65,131)	6,133,777
Net capital assets being depreciated	8,225,329	2,437,576	(34,391)	10,628,514
Net capital assets	\$ 11,245,396	\$ 2,497,137	\$ (1,856,413)	\$ 11,886,120

City of Farmington, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 173,509	\$ -	\$ -	\$ 173,509
Construction in progress	230,618	27,824	(230,618)	27,824
Subtotal	404,127	27,824	(230,618)	201,333
Capital assets being depreciated:				
Building	1,791,377	-	-	1,791,377
Water and sewer mains	23,650,265	335,114	-	23,985,379
Water storage tank	53,791	-	-	53,791
Water meters	145,367	246	-	145,613
Truck and tractors	344,431	-	-	344,431
Office equipment	277,150	6,952	-	284,102
Other equipment	120,410	48,188	-	168,598
Subtotal	26,382,791	390,500	-	26,773,291
Accumulated depreciation:				
Buildings	509,593	49,381	-	558,974
Water and sewer mains	7,308,603	481,963	-	7,790,566
Water storage tank	47,344	1,076	-	48,420
Water meters	127,597	2,047	-	129,644
Truck and tractors	192,716	30,702	-	223,418
Office equipment	160,534	32,974	-	193,508
Other equipment	78,113	4,954	-	83,067
Subtotal	8,424,500	603,097	-	9,027,597
Net capital assets being depreciated	17,958,291	(212,597)	-	17,745,694
Net capital assets	<u>\$ 18,362,418</u>	<u>\$ (184,773)</u>	<u>\$ (230,618)</u>	<u>\$ 17,947,027</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Component Unit	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated -				
Land	\$ 76,500	\$ -	\$ -	\$ 76,500
Capital assets being depreciated:				
Land improvements	73,331	9,450	-	82,781
Office equipment	4,380	-	-	4,380
Green areas	29,914	-	-	29,914
Subtotal	107,625	9,450	-	117,075
Accumulated depreciation:				
Land improvements	8,793	2,241	-	11,034
Green areas	17,949	5,982	-	23,931
Subtotal	26,742	8,223	-	34,965
Net capital assets being depreciated	80,883	1,227	-	82,110
Net capital assets	<u>\$ 157,383</u>	<u>\$ 1,227</u>	<u>\$ -</u>	<u>\$ 158,610</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 82,525
Public safety	137,479
Public works	418,046
Recreation and culture	37,950
Total governmental activities	<u>\$ 676,000</u>
Business-type activities:	
Water and sewer	\$ 576,359
Theater	26,738
Total business-type activities	<u>\$ 603,097</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Major Street Fund	\$ 13,630
	Local Street Fund	40,763
	Water and Sewer Fund	27,343
	Farmington Community Theater Fund	398
		<u>82,134</u>
Total General Fund		82,134
Major Street Fund	Municipal Street Fund	110,145
Local Street Fund	Municipal Street Fund	381,407
	Major Street Fund	15,884
Total Local Street Fund		<u>397,291</u>
Total		<u><u>\$ 589,570</u></u>

Advances from/to Other Funds

Capital Improvement Fund	Farmington Community Theater Fund	<u><u>\$ 780,114</u></u>
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Interfund Transfers

	Transfers Out				
	General Fund	Major Street Fund	Local Street Fund	Municipal Street Fund	Other Nonmajor Funds
Transfers in:					
Local Street Fund	\$ -	\$ -	\$ -	\$ 481,407	\$ -
Major Street Fund	-	-	-	110,145	-
Debt service	-	41,413	37,236	-	-
Farmington Community Theater Fund	28,515	-	-	-	-
Water and Sewer Fund	-	-	-	-	95,000
Total	<u>\$ 28,515</u>	<u>\$ 41,413</u>	<u>\$ 37,236</u>	<u>\$ 591,552</u>	<u>\$ 95,000</u>

City of Farmington, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. The general obligation bonds are direct obligations and pledge the full faith and credit of the City. The county drain contracts and Michigan Transportation Fund Bonds are also general obligations of the government. The Building Authority Bonds are general obligations of the Farmington Hills Building Authority. Both the City of Farmington and the City of Farmington Hills have signed lease agreements with the Farmington Hills Building Authority, which provide for lease payments in the exact amount of the debt service on the Building Authority Bonds. The City of Farmington's portion of these lease payments is recorded below. Revenue bonds involve a pledge of specific income derived from the acquired or constructed access to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Bond and contract obligations:							
Transportation Fund Bonds:							
1992 Michigan Transportation Fund Bonds:							
Amount of issue - \$300,000							
Maturing through 2003	5.75%	\$40,000	\$ 40,000	\$ -	\$ (40,000)	\$ -	\$ -
1995 Michigan Transportation Fund Bonds:							
Amount of issue - \$380,000	5.05%-	\$25,000-					
Maturing through 2009	5.65%	\$40,000	235,000	-	(25,000)	210,000	30,000
County drain contracts:							
1985 Caddell Drain Issue:							
Amount of issue - \$505,750							
Maturing through 2003	5.53%	\$27,648	27,648	-	(27,648)	-	-
2003 Caddell Drain Refunding Issue:							
Amount of issue - \$286,280	1.5%-	\$18,189-					
Maturing through 2014	4.0%	\$26,097	286,280	-	(18,189)	268,091	22,143
Building Authority Bonds:							
2001 Building Authority Bonds -							
47th District Court:							
Amount of issue - \$1,400,300**	3.0%-	\$38,190-					
Maturing through 2021	5.0%	\$127,300	1,374,840	-	(40,530)	1,334,310	38,190
Total governmental activities			\$ 1,963,768	\$ -	\$ (151,367)	\$ 1,812,401	\$ 90,333

** Amount represents the City of Farmington's portion of bonds issued by the City of Farmington Hills' Building Authority.

City of Farmington, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General Obligation Bonds:							
1990 Sewer Improvements:							
Amount of issue - \$12,000,000		\$630,000-					
Maturing through 2010	2.0%	\$725,000	\$ 5,400,000	\$ -	\$ (630,000)	\$ 4,770,000	\$ 640,000
2003 Capital Improvement Sewer Bonds:							
Amount of Issue - \$900,000	3.2%-	\$25,000-					
Maturing through 2023	4.8%	\$60,000	900,000	-	(25,000)	875,000	25,000
Revenue bonds:							
1991 Water Supply and Sewer Disposal							
System Bonds:							
Amount of issue - \$934,212		\$45,000-					
Maturing through 2013	2.0%	\$55,000	515,000	-	(45,000)	470,000	50,000
1999 Community Theatre Bonds:							
Amount of issue - \$690,000	4.8%-	\$35,000-					
Maturing through 2015	5.95%	\$65,000	625,000	-	(35,000)	590,000	35,000
Total business-type activities			\$ 7,440,000	\$ -	\$ (735,000)	\$ 6,705,000	\$ 750,000

Annual debt service requirements to maturity for the above governmental and business-type bonds and contracts are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 90,333	\$ 78,642	\$ 168,975	\$ 750,000	\$ 164,845	\$ 914,845
2006	94,287	75,405	169,692	775,000	148,158	923,158
2007	111,227	71,720	182,947	785,000	130,978	915,978
2008	110,436	67,241	177,677	810,000	113,298	923,298
2009	115,436	62,442	177,878	825,000	95,065	920,065
2010-2014	519,810	246,323	766,133	2,140,000	247,537	2,387,537
2015-2019	496,470	137,570	634,040	390,000	91,772	481,772
2020-2023	274,402	19,095	293,497	230,000	22,307	252,307
Total	\$ 1,812,401	\$ 758,438	\$ 2,570,839	\$ 6,705,000	\$ 1,013,960	\$ 7,718,960

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees, and participates in the Michigan Municipal Risk Management Authority, a risk pool for claims relating to property loss, torts, and errors and omissions. The City also participates in the Michigan Municipal League (MML) risk pool for employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Risk Management (Continued)

The MML risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "MML Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the MML Authority that the MML Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The activity for the MML Authority is accounted for in the Self-insurance Fund.

Note 9 - Defined Benefit Pension Plan

Plan Description

The City of Farmington Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Farmington; this plan covers nearly all employees of the City. The system provides retirement and disability benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 32 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 57 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are made. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by ordinance and by negotiation with the City's competitive bargaining units and employee groups and requires a contribution from the employees of 0 percent to 3 percent, depending on employee group. The funding policy provides for periodic employer contributions at actuarially determined rates. Investment management costs of the plan are paid by the plan.

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Costs

For the year ended June 30, 2004, the City's annual pension cost of \$141,974 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the entry actual age actuarial cost method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually (including an inflation component of 5 percent), (b) projected salary increases of 5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 5 percent per year, depending on age, attributable to seniority/merit, and (d) no postretirement benefit increase. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The excess of assets over the actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 20 years.

Reserves

As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$ 307,711
Reserves for retired benefit payments	7,206,321

Three-year trend information as of June 30 follows:

	Fiscal Year Ended December 31		
	2004	2003	2002
Annual pension costs (APC)	\$ 141,974	\$ 24,962	\$ 9,873
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees and their eligible beneficiaries upon retirement, in accordance with labor contracts and employee agreements, and in accordance with the City of Farmington's Retiree Health Care Plan (the "Plan"). The Plan was established by ordinance and created under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999 and is administered by the City of Farmington. The Plan funds the City's share of retiree health care insurance premiums, which are based on the employee's years of service. The City is currently funding the Plan based on actuarial estimates, but is required by ordinance to fund the Plan on an actuarial basis on or before July 1, 2008. Currently, 34 retirees are eligible and 30 are participating. Expenditures for insurance premiums during the year amounted to approximately \$210,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 11 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds with management's designations:

	General Fund	Local Street Fund	Municipal Street Fund
Designated for:			
Cemeteries	\$ 46,259	\$ -	\$ -
Accrued benefits	720,434	-	-
Other	332,753	-	-
Subsequent year's expenditures	66,040	2,180	28,170
Total designated	<u>\$ 1,165,486</u>	<u>\$ 2,180</u>	<u>\$ 28,170</u>
Unreserved	<u>\$ 2,696,663</u>	<u>\$ 245,929</u>	<u>\$ 345,759</u>

Required Supplemental Information

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Resources (Inflows)				
Property taxes	\$ 4,036,245	\$ 4,158,478	\$ 4,163,580	\$ 5,102
Licenses and permits	82,510	87,110	106,799	19,689
Intergovernmental revenues	37,729	-	-	-
State-shared revenues	1,083,185	1,012,075	1,051,251	39,176
Charges for services	439,515	1,196,689	1,176,452	(20,237)
Charges for services - Sales	13,500	-	-	-
Fines, forfeits, and court costs	494,000	405,500	427,528	22,028
Investment income	65,000	68,770	64,063	(4,707)
Other revenue	166,630	84,170	108,009	23,839
Transfers from other funds	605,290	-	-	-
Appropriations from fund balance	100,180	536,661	-	(536,661)
Total resources (inflows)	7,123,784	7,549,453	7,097,682	(451,771)
Charges to Appropriations (Outflows)				
General government	1,353,278	1,411,867	1,296,287	115,580
Court	393,837	552,107	557,675	(5,568)
Public safety	2,155,551	2,130,864	1,990,332	140,532
Public services	1,113,695	1,179,855	954,145	225,710
Health and welfare	-	30,982	27,590	3,392
Community and economic development	-	33,425	31,600	1,825
Recreation and culture	341,548	717,363	669,271	48,092
Library	291,383	-	-	-
Miscellaneous	125,712	-	335	(335)
Transfers and other funds	260,890	289,405	289,405	-
Insurance and bonds	1,087,890	108,325	108,322	3
Employee benefits	-	1,095,260	1,038,963	56,297
Total charges to appropriations (outflows)	7,123,784	7,549,453	6,963,925	585,528
Transfers to Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,757</u>	<u>\$ 133,757</u>

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Resources (Inflows)				
State-shared revenue	\$ 391,150	\$ 391,150	\$ 407,014	\$ 15,864
Contracts and grants	99,600	98,470	76,154	(22,316)
Other revenue	7,200	2,500	2,739	239
Transfers in from other funds	-	118,415	110,145	(8,270)
Appropriations from fund balance	247,360	236,075	-	(236,075)
Total resources (inflows)	745,310	846,610	596,052	(250,558)
Charges to Appropriations (Outflows)				
Road improvements	400,000	469,390	425,812	43,578
Operations and maintenance	255,825	268,505	193,639	74,866
Transfers to other funds	41,150	41,415	41,413	2
Contributions - Other systems	48,335	67,300	46,214	21,086
Total charges to appropriations (outflows)	745,310	846,610	707,078	139,532
Transfers to Fund Balance	\$ -	\$ -	\$ (111,026)	\$ (111,026)

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Resources (Inflows)				
State-shared revenue	\$ 167,970	\$ 167,970	\$ 174,872	\$ 6,902
Transfer - Municipal Street Fund	642,015	642,195	481,407	(160,788)
Other revenue	28,800	26,300	26,171	(129)
Appropriations from fund balance	<u>22,650</u>	<u>60,110</u>	<u>-</u>	<u>(60,110)</u>
Total resources (inflows)	861,435	896,575	682,450	(214,125)
Charges to Appropriations (Outflows)				
Road improvements	550,000	544,000	310,811	233,189
Operations and maintenance	274,420	315,110	280,023	35,087
Interfund transfers	<u>37,015</u>	<u>37,465</u>	<u>37,236</u>	<u>229</u>
Total charges to appropriations (outflows)	<u>861,435</u>	<u>896,575</u>	<u>628,070</u>	<u>268,505</u>
Transfers to Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,380</u>	<u>\$ 54,380</u>

City of Farmington, Michigan

Required Supplemental Information Budgetary Comparison Schedule Municipal Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Resources (Inflows)				
Property taxes	\$ 562,595	\$ 556,920	\$ 556,919	\$ (1)
Other income	500	5,000	5,709	709
Appropriations from fund balance	<u>78,920</u>	<u>198,690</u>	<u>-</u>	<u>(198,690)</u>
Total resources (inflows)	642,015	760,610	562,628	(197,982)
Charges to Appropriations (Outflows) -				
Transfer - Local Street Fund	<u>642,015</u>	<u>760,610</u>	<u>591,552</u>	<u>169,058</u>
Transfer to Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,924)</u>	<u>\$ (28,924)</u>

City of Farmington, Michigan

Required Supplemental Information Retirement System Schedule of Funding Progress Year Ended June 30, 2004 (dollar amounts in millions)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/97	\$ 10.80	\$ 8.70	\$ 2.10	124.1	\$ 2.4	-
06/30/98	12.50	9.30	3.20	134.4	2.5	-
06/30/99	14.20	10.10	4.10	140.6	2.6	-
06/30/00	16.00	10.70	5.30	149.5	2.8	-
06/30/01	16.80	11.70	5.10	143.6	2.7	-
06/30/02	16.70	12.70	4.00	131.5	2.9	-
06/30/03	16.20	13.30	2.90	121.8	2.9	-

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
1998	06/30/97	\$ 212,352	100.0
1999	06/30/98	162,271	100.0
2000	06/30/99	141,720	100.0
2001	06/30/00	89,216	100.0
2002	06/30/01	9,873	100.0
2003	06/30/02	24,962	100.0
2004	06/30/03	141,974	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation, follows:

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5%-10%
*Includes inflation at	5%
Cost of living adjustments	None

Other Supplemental Information

City of Farmington, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Debt			Total
	Nonvoted	1992	1995	Nonmajor
	Debt Service	Act 175	Act 175	Governmental
		Debt	Debt	Funds
Assets				
Cash and investments	\$ 6,515	\$ -	\$ -	\$ 6,515
Receivables - Net	-	-	-	-
Total assets	<u>\$ 6,515</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,515</u>
Liabilities and Fund Balances				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances - Reserved	<u>6,515</u>	<u>-</u>	<u>-</u>	<u>6,515</u>
Total liabilities and fund balances	<u>\$ 6,515</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,515</u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2004

	Debt Service Funds			Total Nonmajor Governmental Funds
	Nonvoted Debt Service	1992 Act 175 Debt	1995 Act 175 Debt	
Revenues				
Property taxes	\$ 134,643	\$ -	\$ -	\$ 134,643
Interest income	894	-	-	894
Total revenues	135,537	-	-	135,537
Expenditures				
Principal	86,367	40,000	25,000	151,367
Interest	74,280	1,413	12,236	87,929
Total expenditures	160,647	41,413	37,236	239,296
Excess of Expenditures Over Revenues	(25,110)	(41,413)	(37,236)	(103,759)
Other Financing Sources (Uses)				
Transfers in	-	41,413	37,236	78,649
Transfers out	(95,000)	-	-	(95,000)
Total other financing sources (uses)	(95,000)	41,413	37,236	(16,351)
Net Change in Fund Balances	(120,110)	-	-	(120,110)
Fund Balances - Beginning of year	126,625	-	-	126,625
Fund Balances - End of year	<u>\$ 6,515</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,515</u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension and Other Employee Benefit Funds June 30, 2004

	Pension and Other Employee Benefits				
	Employees'	Public	Employee	Disability	
	Retirement	Employee	Fringe	Health	
	System	Health Care	Benefits	Insurance	
	Fund	Fund	Fund	Fund	Total
Assets					
Cash and investments:					
Cash and cash equivalents	\$ 43,618	\$ -	\$ -	\$ -	\$ 43,618
U.S. governmental securities	1,807,619	-	-	-	1,807,619
Corporate stock	3,249,947	-	-	-	3,249,947
Corporate bonds	5,376,775	-	-	-	5,376,775
Mutual funds	4,698,242	-	-	-	4,698,242
Investment pools	-	1,513,679	23,744	52,386	1,589,809
Due from other funds	272	-	-	-	272
Receivables	57,768	-	-	-	57,768
Total assets	15,234,241	1,513,679	23,744	52,386	16,824,050
Liabilities					
Accounts payable	12,948	-	2,563	-	15,511
Due to other funds	-	272	-	-	272
Accrued and other liabilities	1,179	-	-	-	1,179
Total liabilities	14,127	272	2,563	-	16,962
Net Assets - Held in trust for pension and other employee benefits					
	<u>\$ 15,220,114</u>	<u>\$ 1,513,407</u>	<u>\$ 21,181</u>	<u>\$ 52,386</u>	<u>\$ 16,807,088</u>

City of Farmington, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Funds Year Ended June 30, 2004

	Pension and Other Employee Benefits				
	Employees' Retirement System	Public Employee Health Care Fund	Employee Fringe Benefits Fund	Disability Health Insurance Fund	Total
Additions					
Investment income:					
Interest and dividends	\$ 396,741	\$ 10,267	\$ 189	\$ 361	\$ 407,558
Net realized and unrealized gain on investments	1,381,855	-	-	-	1,381,855
Less investment expenses	(93,130)	-	-	-	(93,130)
Net investment income	1,685,466	10,267	189	361	1,696,283
Contributions:					
Employer	141,974	282,046	31,839	1,115	456,974
Employee	51,481	-	-	1,115	52,596
Total contributions	193,455	282,046	31,839	2,230	509,570
Total additions	1,878,921	292,313	32,028	2,591	2,205,853
Deductions					
Benefit payments	581,428	-	30,910	-	612,338
Insurance costs	-	210,022	-	-	210,022
Total deductions	581,428	210,022	30,910	-	822,360
Net Increase in Plan Assets	1,297,493	82,291	1,118	2,591	1,383,493
Net Assets Held in Trust for Pension and Other Employee Benefits					
Beginning of year	13,922,621	1,431,116	20,063	49,795	15,423,595
End of year	<u>\$ 15,220,114</u>	<u>\$ 1,513,407</u>	<u>\$ 21,181</u>	<u>\$ 52,386</u>	<u>\$ 16,807,088</u>



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September 17, 2004

Honorable Mayor and Members
of the City Council
City of Farmington
23600 Liberty
Farmington, MI 48335

Dear Mayor and City Council Members:

We recently completed the audit of the financial statements of the City of Farmington, Michigan for the year ended June 30, 2004. Again, the entire Finance Department put forth an outstanding effort in preparing for the audit. In addition to the audit report, we offer the following comments for your consideration:

Current State Financial Picture

The City has and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounts for approximately 14% of the City's total General Fund revenue. Almost all municipalities are receiving reductions in their state shared revenue due to the State's budget problems. For the state's third fiscal year in a row, revenue sharing payments were less than originally projected.

Currently, the budget proposed for the State's 2004/2005 fiscal year includes another reduction for the City in state shared revenue of approximately one percent from fiscal year 2003/2004 levels. This version of the budget was ultimately adopted by the Michigan Legislature. Again, it includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

Over the past several years, the City has been able to maintain a prudent level of General Fund fund balance. Undesignated fund balance for the General Fund is \$2,700,000 for the year ended June 30, 2004. Fund balance is necessary due to uncertainty related to major revenue sources, contingencies and increasing costs. The City is well positioned in the short-run to weather this downturn because of the fund balance that exists. We encourage management to make every effort to protect and maintain the level of fund balance. This will help to ensure the City's stability for years to come.

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Property Taxes

As you will recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%

The 2003 inflation factor, which was the lowest level of inflation in the last ten years, was used for property taxes levied in the City's year ended June 30, 2004. As indicated above, growth in existing property is significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. The charter operating mills are 20.0000 versus the Headlee limited mills of 16.3603. The City is currently not levying at capacity, but the millage capacity (the difference between actual levy and Headlee Maximum) of the City will continue to shrink as the rates get "rolled back" annually. The City's millage capacity for the June 30, 2004 fiscal year was 5.1103, a decrease of 0.2838 mills from the previous year.

Public Accounting Update

During the current audit, a new standard related to the detection of fraud in an organization was implemented. The new standard adds greater guidance related to the steps an auditor must perform in assessing the risk of fraud. It also specifies that non-accounting personnel must be included in an auditor's inquiries related to fraud.

Postemployment Benefits

There are two new accounting pronouncements that were recently issued by the Governmental Accounting Standards Board. Both standards relate to accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in 2006, the City will be required to

Postemployment Benefits (Continued)

periodically measure its retiree health care liability through actuarial valuations. These valuations will also compute an "annual required contribution". The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less. The City currently has \$1,500,000 set aside in a fund to help offset this liability.

Internal Control Issues

During our testing, the following items were noted related to the City's accounting and internal control systems and may require attention.

1. Vendor Identification Cards - The City currently utilizes vendor identification cards for Sam's Club, Kinko's and other vendors. Items purchased with these cards below \$1,000 do not require the approval of the finance director but do require approval of the department head. Therefore, the department heads have the ability to make purchases under \$1,000 without any approval. We would recommend that a periodic review of the purchases made with these cards be made by someone not involved in the purchasing process.
2. General Journal Entries – We recommend that the City consider implementing a formal approval process for all general journal entries posted to the general ledger. This will help ensure accuracy and timeliness of entries, along with strengthening the internal controls over these types of entries.
3. Remote Cash Receipts – Currently, the Department of Public Works transfers cash received by their department to the Treasurer's Department twice a month for deposit and posting to the general ledger. Even though the amount of the receipts is not material, the City should consider requiring the receipt of these monies more often (i.e. daily or weekly) to deposit the cash and post the receipt to the general ledger on a more timely basis.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

PLANTE & MORAN, PLLC



Gordon E. Krater